

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

High Desert Residential Owners' Association, Inc.

Financial Statements, Supplementary Information
and
Independent Auditor's Report

June 30, 2020
with

Summarized Comparative Information for June 30, 2019

High Desert Residential Owners' Association, Inc.

Table of Contents

Independent Auditor's Report.....	1
Financial Statements	
Balance Sheets	4
Statements of Revenues, Expenses, and Changes in Fund Balances	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7
Supplementary Information	
Combining Schedules of Revenues, Expenses and Changes in Fund Balances – Village Operating Funds	15
Supplementary Information on Future Major Repairs and Replacements (Compiled).....	16

Independent Auditor's Report

Board of Directors
High Desert Residential Owners' Association, Inc.
Albuquerque, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of High Desert Residential Owners' Association, Inc. which comprise the balance sheet as of June 30, 2020, and the related statement of revenues, expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management (for this report Management is defined as those charged with governance, which is the Board of Directors and not the management company) is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
High Desert Residential Owners' Association, Inc.
Albuquerque, New Mexico

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of High Desert Residential Owners' Association, Inc. as of June 30, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We have previously audited High Desert Residential Owners' Association, Inc.'s June 30, 2019 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated September 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived, as restated.

Emphasis of a Matter

For this report, and the remainder of the financial statements, Management is defined as those charged with governance, which is the Board of Directors and not the management company.

Emphasis of Matter

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 4 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Schedules of Revenues, Expenses and Changes in Fund Balances – Village Operating Funds is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Board of Directors
High Desert Residential Owners' Association, Inc.
Albuquerque, New Mexico

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on common property be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Porch & Associates LLC

Albuquerque, New Mexico
November 24, 2020

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
BALANCE SHEETS
June 30, 2020, with Summarized Comparative
Financial Information for June 30, 2019

	Operating Funds	Master Reserve Fund	Arroyo Reserve Fund	Canyons Village Reserve Fund	Chaco Compound Village Reserve Fund	Desert Mountain Reserve Fund	Enclave Village Reserve Fund	Trillium Village Reserve Fund	Wilderness Compound Reserve Fund	Legends Village Reserve Fund	Wilderness Cañon Reserve Fund	Total 2020	(As restated) Total 2019
ASSETS													
Cash and cash equivalents, undesignated	\$ 750,092	-	-	-	-	-	-	-	-	-	-	750,092	930,607
Cash and cash equivalents, designated for future repairs and replacements	-	704,774	107,433	196,659	55,719	261,336	123,828	258,842	100,577	122,428	11,540	1,943,136	1,772,810
Assessment receivable, net	2,950	-	-	-	-	-	-	-	-	-	-	2,950	600
Accounts receivable	56,958	-	-	-	-	-	-	-	-	-	-	56,958	38,214
Prepaid expenses	6,665	-	-	-	-	-	-	-	-	-	-	6,665	8,512
Due from other funds	22,109	-	-	-	-	-	-	-	-	-	-	22,109	5,527
Interest receivable	158	1,328	200	179	53	559	41	908	152	264	-	3,842	8,902
Total assets	\$ 838,932	706,102	107,633	196,838	55,772	261,895	123,869	259,750	100,729	122,692	11,540	2,785,752	2,765,172
LIABILITIES AND FUND BALANCES													
LIABILITIES													
Accounts payable and accrued expenses	\$ 78,016	-	-	-	-	-	-	-	-	-	-	78,016	71,480
Assessments received in advance	61,218	-	-	-	-	-	-	-	-	-	-	61,218	156,193
Taxes payable	6,900	-	-	-	-	-	-	-	-	-	-	6,900	6,496
Construction deposit payable	17,145	-	-	-	-	-	-	-	-	-	-	17,145	41,720
Other liabilities	459	-	-	-	-	-	-	-	-	-	-	459	-
Due to other funds	22,109	-	-	-	-	-	-	-	-	-	-	22,109	5,527
Total liabilities	185,847	-	-	-	-	-	-	-	-	-	-	185,847	281,416
FUND BALANCES													
Unreserved, undesignated	653,085	-	-	-	-	-	-	-	-	-	-	653,085	702,740
Unreserved, designated for:													
Future replacements and repairs	-	706,102	-	196,838	55,772	261,895	123,869	259,750	100,729	122,692	11,540	1,839,187	1,675,543
Arroyo flood control	-	-	107,633	-	-	-	-	-	-	-	-	107,633	105,473
Total fund balances	653,085	706,102	107,633	196,838	55,772	261,895	123,869	259,750	100,729	122,692	11,540	2,599,905	2,483,756
Total liabilities and fund balances	\$ 838,932	706,102	107,633	196,838	55,772	261,895	123,869	259,750	100,729	122,692	11,540	2,785,752	2,765,172

The accompanying notes are an integral part of these financial statements.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2020, with Summarized Comparative Financial
Information for the Year Ended June 30, 2019

	Operating Funds	Master Reserve Fund	Arroyo Reserve Fund	Canyons Village Reserve Fund	Chaco Compound Village Reserve Fund	Desert Mountain Reserve Fund	Enclave Village Reserve Fund	Trillium Village Reserve Fund	Wilderness Compound Reserve Fund	Legends Village Reserve Fund	Wilderness Cañon Reserve Fund	Total 2020	(As restated) Total 2019
Revenues													
Assessments	\$ 1,292,025	62,550	-	10,549	4,643	41,368	14,616	15,288	5,088	15,288	5,460	1,466,875	1,452,490
Cost sharing	78,741	-	-	-	-	-	-	-	-	-	-	78,741	74,991
Other:													
Developer subsidy	2,814	-	-	-	-	-	-	-	-	-	-	2,814	5,000
Miscellaneous income	47,854	-	-	-	-	-	-	-	-	-	-	47,854	24,495
Interest charges	2,431	-	-	-	-	-	-	-	-	-	-	2,431	3,582
Late fees and fines	4,000	-	-	-	-	-	-	-	-	-	-	4,000	3,600
Interest income	5,855	14,553	1,969	4,303	232	3,755	1,888	5,930	891	2,121	82	41,579	33,731
Unrealized gain (loss)	2,128	5,611	191	202	594	1,667	196	586	923	739	-	12,837	4,450
Total revenues	1,435,848	82,714	2,160	15,054	5,469	46,790	16,700	21,804	6,902	18,148	5,542	1,657,131	1,602,339
Expenses													
Landscape	507,007	-	-	-	-	-	-	-	-	-	-	507,007	474,420
Security services	236,285	-	-	-	-	-	-	-	-	-	-	236,285	213,358
Association management fees	141,101	-	-	-	-	-	-	-	-	-	-	141,101	134,723
Utilities	103,192	-	-	-	-	-	-	-	-	-	-	103,192	98,341
Other Expenses	57,928	-	-	-	-	-	-	-	-	-	-	57,928	67,683
Administrative assistant	60,847	-	-	-	-	-	-	-	-	-	-	60,847	51,649
Repairs and maintenance	141,537	-	-	-	-	-	-	-	-	-	-	141,537	50,313
Professional services	175,268	-	-	-	-	-	-	-	-	-	-	175,268	49,359
Pool Expenses	24,850	-	-	-	-	-	-	-	-	-	-	24,850	27,485
Insurance	23,461	-	-	-	-	-	-	-	-	-	-	23,461	22,030
Allowance for uncollectible accounts	1,114	-	-	-	-	-	-	-	-	-	-	1,114	12,432
Taxes	12,913	-	-	-	-	-	-	-	-	-	-	12,913	5,849
Reserve	-	34,305	-	7,762	-	-	-	8,927	-	4,485	-	55,479	186,996
Total expenses	1,485,503	34,305	-	7,762	-	-	-	8,927	-	4,485	-	1,540,982	1,394,638
Net change in fund balances	(49,655)	48,409	2,160	7,292	5,469	46,790	16,700	12,877	6,902	13,663	5,542	116,149	207,701
Fund balance, beginning of year	702,740	657,693	105,473	189,546	50,303	215,105	107,169	246,873	93,827	109,029	5,998	2,483,756	2,276,055
Fund balance, end of year	\$ 653,085	706,102	107,633	196,838	55,772	261,895	123,869	259,750	100,729	122,692	11,540	2,599,905	2,483,756

The accompanying notes are an integral part of these financial statements.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Year Ended June 30, 2020, with Summarized Comparative Financial
Information for the Year Ended June 30, 2019

	Operating Funds	Master Reserve Fund	Arroyo Reserve Fund	Canyons Village Reserve Fund	Chaco Compound Village Reserve Fund	Desert Mountain Reserve Fund	Enclave Village Reserve Fund	Trillium Village Reserve Fund	Wilderness Compound Reserve Fund	Legends Village Reserve Fund	Wilderness Cañon Reserve Fund	Total 2020	(As restated) Total 2019
Cash Flows From Operating Activities													
Net change in fund balances	\$ (49,655)	48,409	2,160	7,292	5,469	46,790	16,700	12,877	6,902	13,663	5,542	116,149	207,701
Adjustments to reconcile the net change in in fund balances to net cash (used) provided by operating activities:													
Allowance for uncollectible accounts - assessments	1,114	-	-	-	-	-	-	-	-	-	-	1,114	-
Allowance for uncollectible accounts - receivables	-	-	-	-	-	-	-	-	-	-	-	-	12,432
Changes in assets and liabilities:													
Assessment receivable	(2,350)	-	-	-	-	-	-	-	-	-	-	(2,350)	4,063
Accounts receivable	(18,744)	-	-	-	-	-	-	-	-	-	-	(18,744)	16,133
Interest receivable	538	1,507	398	897	93	68	407	530	296	326	-	5,060	(8,902)
Prepaid expenses	1,847	-	-	-	-	-	-	-	-	-	-	1,847	(2,470)
Accounts payable and accrued expenses	6,536	-	-	-	-	-	-	-	-	-	-	6,536	(25,059)
Assessments received in advance	(94,975)	-	-	-	-	-	-	-	-	-	-	(94,975)	113,824
Construction deposit payable	(24,575)	-	-	-	-	-	-	-	-	-	-	(24,575)	(21,826)
Taxes payable	404	-	-	-	-	-	-	-	-	-	-	404	1,304
Other liabilities	459	-	-	-	-	-	-	-	-	-	-	459	-
Net cash (used) provided by operating activities	(179,401)	49,916	2,558	8,189	5,562	46,858	17,107	13,407	7,198	13,989	5,542	(9,075)	297,200
Net change in cash and cash equivalents	(179,401)	49,916	2,558	8,189	5,562	46,858	17,107	13,407	7,198	13,989	5,542	(9,075)	297,200
Cash and cash equivalents:													
Beginning of year	930,607	654,858	104,875	188,470	50,157	214,478	106,721	245,435	93,379	108,439	5,998	2,703,417	2,406,217
End of year	\$ 751,206	704,774	107,433	196,659	55,719	261,336	123,828	258,842	100,577	122,428	11,540	2,694,342	2,703,417
Supplemental Disclosures of Cash Flow Information													
Cash payments for income taxes	\$ 11,357	-	-	-	-	-	-	-	-	-	-	11,357	4,113

The accompanying notes are an integral part of these financial statements.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 (with comparative information for June 30, 2019)

NOTE 1. BACKGROUND INFORMATION

High Desert Residential Owners Association, Inc. (Association) is the governing body for High Desert, which is a master planned community, consisting of approximately 1,000 acres which, at full development, will have approximately 1,623 dwelling units. It is located in the city of Albuquerque, New Mexico. The Association was incorporated on October 12, 1993, in the state of New Mexico. The Association is responsible for the operation and maintenance of common property within the development. All of the residential property in the Association is subject to the Declaration of Covenants, Conditions, and Restrictions for High Desert Residential Properties (Declarations).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Association is presented to assist in the understanding the Association's financial statements. The financial statements and notes are the representations of the Association's management who is responsible for their integrity and objectivity.

The Financial Accounting Standards Board (FASB) has issued the Accounting Standards Codification (ASC or the Codification) as the source of authoritative accounting principles recognized by the FASB to be used by nongovernmental entities when preparing financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. The Codification essentially reduces the GAAP hierarchy to two levels: authoritative and non-authoritative, with the Codification being authoritative GAAP.

The significant accounting policies followed are:

Fund Accounting. The Association's governing documents provide certain guidelines governing its financial activities. In order to ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for general operations of the Association.

Reserve Fund – These funds are used to accumulate financial resources designated for future major repairs and replacements within High Desert, the Arroyo Reserve and the Gated Villages of Canyons, Chaco Compound, Desert Mountain, Enclave, Trillium, Wilderness Compound, Legends Village, and the Wilderness Cañon which are accounted for separately from the Operating Fund. Reserve funds are not co-mingled with operating funds.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 (with comparative information for June 30, 2019)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summarized Comparative Information. The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents. The Association considers all currency on hand, demand deposits, money market, and certificate of deposits to be cash and cash equivalents.

Concentration of Credit Risk. The Association maintains its cash and cash equivalents in bank deposit accounts, money market accounts, and certificates of deposit. The Association's management company has obtained private deposit insurance in the amount of \$99,999,999.99 in order to protect balances in excess of FDIC insurance. Therefore, the Association did not have any balances in excess of FDIC or private insurance at June 30, 2020 and 2019, respectively.

The Association also maintains balances in money market investment accounts which are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. The Association did not have money market balances in excess of SIPC insurance at June 30, 2020 or 2019, respectively.

The Association also invests in certificates of deposits through a brokerage firm account. The brokerage firm has invested no more than \$250,000 in certificates of deposit at any individual bank. The intent is to ensure that all certificates of deposit are covered by FDIC insurance. The Association did not have certificate of deposit balances in excess of FDIC insurance at June 30, 2020 and 2019, respectively.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 (with comparative information for June 30, 2019)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Member Assessments. In order for the Association to preserve and maintain the community, each owner of a residential unit is required to pay base assessments to the Association for the unit's pro rata share of the common expenses incurred by the Association for the general benefit of all units. Base assessments are levied annually, but at the discretion of the Association's board of directors, may be payable in semiannual, quarterly or monthly installments. In addition, the Association is authorized under certain circumstances to levy (a) special assessments for expenses which benefit only units within a particular village or villages, (b) special assessments for unbudgeted expenses or expenses in excess of budget, and (c) specific assessments, which may be levied on units which receive special benefits or services not provided to all units, or which may be levied against a particular unit or village to reimburse the Association for costs incurred in bringing the unit or the village into compliance with the provisions of the Declarations.

Base assessments are determined on the basis of a budget prepared annually and approved by the Association's Board of Directors covering the estimated costs of operating the Association during the coming year. Gated village assessments are determined on the basis of a separate budget prepared by the treasurer of the board and approved by the Association's Board of Directors covering the estimated gated village expenses to be incurred by the Association for each gated village. The budget process is the same for the Association and the gated villages. Special assessments may be levied only upon the approval of voting members (if a common expense) or owners (if a Village expense) representing at least 51% of the total votes allocated to units which will be subject to the special assessment. Specific assessments require no membership approval, but if levied to reimburse the Association for costs incurred in bringing a unit of a village into compliance, such assessments do require notice to the affected village or unit owner and an opportunity for a hearing.

The Association is authorized to levy assessments against nonresidential properties in High Desert for a portion of the expenses incurred or anticipated to be incurred by the Association in fulfilling its responsibilities and exercising its rights under the Declarations. The assessments for nonresidential properties are calculated in accordance with an agreement to share costs affecting each nonresidential parcel.

Although it is provided for in the Declarations, at this time the Association has chosen not to require the first owner of record to a unit to make a working capital contribution to the Association, which would otherwise be equal to 1/6th of the annual base assessment per unit for that year.

The obligation to pay assessments commences as to each unit on the first day of the first month following the date on which the unit is made subject to the Declaration. All assessments are the personal obligation of the owner of the unit and also constitute a lien against the unit prior and superior to all other liens except the lien of a first mortgage and taxes. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 (with comparative information for June 30, 2019)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessments Receivable, net. The Association had assessments receivable of \$29,379 and \$21,919 as of June 30, 2020 and 2019, respectively. Management has established an allowance for doubtful accounts of \$26,429 and \$21,319 during the year ending June 30, 2020 and 2019, respectively.

Management reviews the collectability of its receivables regularly and, when appropriate, records an estimate for uncollectible accounts. The basis for the estimate is the total of accounts in foreclosure and bankruptcy. When an account is determined to be uncollectible by the board of directors, it is charged off against the estimate.

Accounts Receivable. Accounts receivable consists of late fees, interest on late assessments, return item fees, liens, attorney fees owned by homeowners, gate remotes fees, violation fines, and rental policy violation fines. The Association had accounts receivable of \$84,958 and \$66,214 as of June 30, 2020 and 2019, respectively. Management has established an allowance for doubtful accounts of \$28,000 as of June 30, 2020 and 2019, respectively.

Income Taxes. Homeowners' associations may elect to be taxed as regular corporations, subject to the provisions of Internal Revenue Code (IRC) Section 277, or as homeowners' association subject to IRC Section 528. The Association has elected to be taxed as a homeowners' association under IRC 528. Under that election, net income arising from defined exempt function activities is not taxed; however, federal income tax is assessed on income derived from nonexempt function activities at a rate of 30%. Exempt function income basically consists of amounts received from Association members solely as a function of their membership in the Association. Non-exempt function income results primarily from revenue from nonmembers and investment income.

The FASB has issued guidance, included in the ASC, related to the accounting for uncertainty in taxes recognized in financial statements. These standards require recognition and measurement of uncertain income tax positions using a "more likely than not" approach. The Association evaluates its uncertain tax positions, and a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 (with comparative information for June 30, 2019)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Association classifies interest and penalties with respect to material uncertain tax positions recognized in the financial statements (when applicable) as interest expense and as an operating expense, respectively. The Association has assessed its tax positions for all open tax years (2018 through 2020) and has concluded that there are currently no significant liabilities to be recognized.

Cost Sharing. The Association has an agreement with Alliance Residential, LLC, a non-residential owner of an apartment complex located within the Associations boundaries, to share expenses of the common areas.

Interest Income. Operating and replacement funds have individual interest-bearing accounts and certificates of deposit. Interest income associated with the accounts is reported in their respective funds.

Property and Equipment, Common Areas. Generally Accepted Accounting Principles specific to Common Interest Realty Associations required common area property and equipment to be capitalized if the Association has title to the assets and (1) the Association can dispose of the property, at the discretion of its board of directors, for cash or claims to cash, with the association retaining the proceeds, or (2) the property is used by the Association to generate significant cash flows from members on the basis of usage or from nonmembers. Management has determined that the Association does not meet the test for capitalizing property and equipment.

NOTE 3. ECONOMIC DEPENDENCY

Approximately 89% and 91% of the Association's revenue for the years ended June 30, 2020 and 2019, respectively, were derived from member assessments and developer subsidies.

NOTE 4. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements which include, but are not limited to, street replacement and repairs in certain villages (solely the obligation of the village residents) and maintenance of the development's arroyo systems. Accumulated funds are held in separate accounts and are not available for operating purposes.

The funding program is based on a reserve study performed by an independent firm that estimates the remaining useful life and replacement costs of the common property components.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 (with comparative information for June 30, 2019)

NOTE 4. FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

Reserve studies were completed on the Master development and were performed for the Canyons, Chaco Compound, Desert Mountain, Enclave, Trillium, Wilderness Compound, and Legends Villages to estimate the remaining useful lives and replacement costs of the common property components in each gated village. Additional assessments are billed to village residents on a quarterly basis. The estimates are obtained from the study by the independent firm.

Because of drainage easements, the Association is required by the Albuquerque Metropolitan Arroyo Flood Control Authority (AMAFCA) to establish a contingency reserve dedicated solely to extraordinary drainage maintenance and repair for certain arroyos in the High Desert. The Association has funded the arroyo contingency reserve in the amount of \$107,433 as required in accordance with the agreement with AMAFCA.

The Association designated \$174,850 and \$146,745 in reserve replacement funds and incurred \$55,479 and \$186,996 in reserve fund expenditures for the years ended June 30, 2020 and 2019, respectively. Accumulated reserve funds, which aggregate to \$1,943,136 and \$1,772,810 at June 30, 2020 and 2019, respectively, are held in separate accounts and generally are not available for operating purposes.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures for future repairs and replacements and contingency reserves may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement funds and contingency reserve may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 5: RESTATEMENT OF JUNE 30, 2019 BALANCES

The 2019 balances were restated to reflect the correction for the overstatement of prior year expense. The accounts affected were accounts receivable and association management fees which were each increased by \$3,683.

In addition, due to and due from balances were not recorded as of June 30, 2019. The main operating fund made the tax payments for the June 30, 2018 and 2019 tax years on behalf of all funds. The amount due to the main operating account from other funds as of June 30, 2019 is \$5,527.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 (with comparative information for June 30, 2019)

NOTE 6: OPERATING LEASES

The association rents its office space. Under the lease agreement, the monthly rent payment is \$778 for four years commencing on July 1, 2019 and ending June 30, 2023. Rent expense for the years ended June 30, 2020 and 2019 was \$9,332 and \$9,262, respectively.

Minimum future lease payments in the aggregate and for each of the next three years were as follows as of June 30, 2020:

Year Ending June 30	
2021	\$ 9,332
2022	9,332
2023	9,332
	\$ 27,996

NOTE 7: DUE TO AND DUE FROM BALANCES

The main operating fund made operating loans to two other funds during the year ending June 20, 2020. In addition, the main operating fund made the tax payments for the June 30, 2018, 2019, and 2020 tax years on behalf of all funds. The tax payments for those years have not been reimbursed to the main operating fund as of June 30, 2020.

The components of due to and due from balances as of June 30, 2020 are as follows:

Fund	Due From	Due To	Reason
Operating - Main	\$ 11,189	-	Operating funds loan
Chaco Compound Village - Operating	-	7,389	Operating funds loan
Wilderness Cañon - Operating	-	3,800	Operating funds loan
Operating - Main	10,920	-	Taxes paid by the main operating account
Canyons Village - Operating	-	2,250	Taxes paid by the main operating account
Chaco Compound Village Operating	-	294	Taxes paid by the main operating account
Desert Mountain - Operating	-	2,142	Taxes paid by the main operating account
Enclave Village - Operating	-	1,097	Taxes paid by the main operating account
Trillium Village - Operating	-	3,073	Taxes paid by the main operating account
Wilderness Compound - Operating	-	762	Taxes paid by the main operating account
Legends Village - Operating	-	1,264	Taxes paid by the main operating account
Wilderness Cañon - Operating	-	38	Taxes paid by the main operating account
	\$ 22,109	22,109	

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 (with comparative information for June 30, 2019)

NOTE 8. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements are available to be issued.

The Association has evaluated subsequent events through November 24, 2020 which is the date the financial statements are available to be issued. Subsequent to year-end, the United States and global economies experienced significant declines resulting from uncertainty caused by the world-wide coronavirus pandemic. The effects of the pandemic on the future financial results of the Association are unknown.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
COMBINING SCHEDULES OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES - VILLAGE OPERATING FUNDS
Year Ended June 30, 2020, with Summarized Comparative Financial
Information for the Year Ended June 30, 2019

	Master Operating Fund	Canyons Village Operating Fund	Chaco Compound Village Operating Fund	Desert Mountain Operating Fund	Enclave Village Operating Fund	Trillium Village Operating Fund	Wilderness Compound Operating Fund	Legends Village Operating Fund	Wilderness Cañon Operating Fund	Total 2020	(As restated) Total 2019
Revenues											
Assessments	\$ 1,106,010	19,091	7,501	70,952	14,688	35,688	11,448	20,424	6,223	1,292,025	1,305,745
Cost sharing	78,741	-	-	-	-	-	-	-	-	78,741	74,992
Other:											
Developer subsidy	-	-	-	-	-	-	-	-	2,814	2,814	5,000
Miscellaneous income	47,844	-	-	10	-	-	-	-	-	47,854	24,495
Interest charges	2,175	11	15	138	38	30	3	21	-	2,431	3,581
Late fees and fines	3,700	-	100	-	100	-	-	-	100	4,000	3,600
Interest income	5,695	22	9	50	12	38	16	10	3	5,855	4,369
Unrealized Gain/(Loss)	2,128	-	-	-	-	-	-	-	-	2,128	-
Total revenues	1,246,293	19,124	7,625	71,150	14,838	35,756	11,467	20,455	9,140	1,435,848	1,421,782
Expenses											
Landscape	417,894	10,691	933	15,996	5,983	18,413	13,644	20,829	2,624	507,007	474,420
Security services	233,908	570	-	1,069	-	738	-	-	-	236,285	213,358
Association management fees	141,101	-	-	-	-	-	-	-	-	141,101	138,407
Utilities	67,229	2,888	1,503	17,038	2,661	5,975	1,382	3,884	632	103,192	98,341
Other	55,290	-	-	1,829	-	809	-	-	-	57,928	63,999
Administrative assistant	60,847	-	-	-	-	-	-	-	-	60,847	51,649
Repairs and maintenance	75,866	3,440	7,889	31,711	7,308	4,071	2,000	5,457	3,794	141,537	50,312
Professional services	167,240	1,044	321	2,730	1,044	1,765	401	723	-	175,268	49,360
Pool	-	-	-	24,850	-	-	-	-	-	24,850	27,485
Insurance	15,760	684	385	3,093	703	1,199	545	780	312	23,461	22,030
Allowance for uncollectible accounts	1,114	-	-	-	-	-	-	-	-	1,114	12,432
Taxes	7,520	1,205	67	1,060	529	1,662	253	593	24	12,913	5,849
Total expenses	1,243,769	20,522	11,098	99,376	18,228	34,632	18,225	32,266	7,386	1,485,503	1,207,642
Excess (deficiency) of revenues over expenses	2,524	(1,398)	(3,473)	(28,226)	(3,390)	1,124	(6,758)	(11,811)	1,754	(49,655)	214,140
Other Financing (Uses) Sources											
Transfers between funds	11,189	-	(7,389)	-	-	-	-	-	(3,800)	-	-
Net change in fund balances	13,713	(1,398)	(10,862)	(28,226)	(3,390)	1,124	(6,758)	(11,811)	(2,046)	(49,655)	214,140
Fund balance, beginning of year	518,791	22,494	10,502	65,674	13,055	40,908	19,564	10,501	1,251	702,740	488,600
Fund balance, end of year	\$ 532,504	21,096	(360)	37,448	9,665	42,032	12,806	(1,310)	(795)	653,085	702,740

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (Compiled)
June 30, 2020

An independent firm conducted a reserve study issued during May of 2016 to estimate the remaining useful life and replacement costs of the components of common property for the Master, Canyons Village, Chaco Compound Village, Desert Mountain Village, Enclave Village, Trillium Village, Wilderness Compound, and the Legends Village. Replacement costs for a thirty-year period were based on the estimated costs to repair or replace the common property components at the date of the study assuming an annual inflation rate of 2.5 percent. Reserve funds were estimated to earn 1.00% interest.

The following information is based on the study and presents significant information about the components of common property.

	Estimated Remaining Useful Life	Estimated Current Replacement Cost
Master Reserve	0 - 30	\$ 4,009,812
Canyon Village	0 - 30	1,408,729
Chaco Compound Village	0 - 30	612,096
Desert Mountain Village	0 - 30	3,263,207
Enclave Village	0 - 30	1,070,230
Trillium Village	0 - 30	1,992,307
Wilderness Compound	0 - 30	771,680
Legends Village	0 - 30	<u>1,279,461</u>
Total required reserve for repairs and replacements		<u>\$ 14,407,522</u>